Oklahoma International Trade Bulletin

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Exporting 101: Export Shipping and Documentation Workshop to be held in Tulsa on November 9th and Oklahoma City on December 1st

The Oklahoma District Export Council, in conjunction with the Oklahoma U. S. Export Assistance Center and the Oklahoma Department of Commerce, will sponsor a full-day workshop in Tulsa on November 9, 2005, and in Oklahoma City on December 1, 2005, on ***Exporting 101—Export Shipping and Documentation Workshop.***

Registration will begin at 8:30 a.m. The workshop will be held from 9:00 a.m. to 4:00 p.m. The Tulsa workshop will be located in Room 150 of the North Hall at the OSU-Tulsa, 700 North Greenwood Avenue, Tulsa. The Oklahoma City workshop will be located in Gallery I-I at the Oklahoma Department of Commerce, 900 North Stiles Avenue, Oklahoma City.

For a fee of only $35.00 you will receive nearly seven hours of export advice from freight forwarders and Commerce international trade specialists. The following subjects will be covered: export licensing; utilizing a freight forwarder; export quotations; shipping methods; export packing; export documentation; and insurance. This will be an excellent opportunity to have your questions answered by the experts.

Your registration fee will also include a networking luncheon.

Checks should be made payable to the Oklahoma District Export Council and mailed to 301 N. W. 63rd Street, Suite 330; Oklahoma City, Oklahoma 73116.

For your convenience, a registration form is included on page 3 of this newsletter.

The cancellation policy for all workshops is a full refund up to 24 hours prior to the event. For a cancellation within 24 hours of the event, your registration fee will be applied to a future workshop of your choice or the amount that you paid will be applied to the cost of the Oklahoma World Trade Conference.

For further information or registration, call 918/581-7650 or 405/608-5302.

Methods of Payment

Prudent Credit Practices

An experienced exporting firm extends credit cautiously. It evaluates new customers with care and continuously monitors older accounts. Such a firm may wisely decide to decline a customer's request for open account credit if the risk is too great and propose instead payment on delivery terms through a documentary sight draft or irrevocable confirmed letter of credit or even payment in advance. On the other hand, for a fully creditworthy customer, the experienced exporter may decide to allow a month or two to pay, perhaps even on open account.

Other good credit practices include being aware of any unfavorable changes in your customers' payment patterns, refraining from going beyond normal commercial terms, and consulting with your international banker on how to cope with unusual circumstances or in difficult markets. It is always advisable to check a buyer's credit (even if safest payment methods are employed). A Department of Commerce International Company Profile (ICP) provides useful information for credit checks. For a fee, an ICP may be requested on foreign companies in many countries. It contains financial information on the company and a discussion regarding its size, capitalization, years in business, and other information such as citing some U.S. companies that conduct business with the firm. The exporter can then contact the U.S. companies to find out about their payment experience with the foreign firm.

ICPs are not available in every country, and in these instances, EACs can provide a list of private credit reporting services. There are several U.S. companies that compile financial information on foreign firms (particularly larger firms) and make it available to their subscribers. Also, banks are sometimes able to provide credit reports on foreign companies, either through their own foreign branches or through a correspondent bank.

As being paid in full and on time is of the utmost concern to exporters, the level of risk in extending credit is a major consideration. There are several ways in which you can receive payment when selling your products abroad, depending on how trustworthy you consider the buyer to be. Typically with domestic sales, if the buyer has good credit, sales are made on open account; if not, cash in advance is required. For export sales, these ways are not the only common methods. Listed in order from most secure for the exporter to the least secure, the basic methods of payment are:

1. Cash in advance;
2. Documentary letter of credit;
3. Documentary collection or draft;
4. Open account; and
5. Other payment mechanisms, such as consignment sales.

Cash in Advance

Receiving payment by cash in advance of the shipment might seem ideal. In this situation, the exporter is relieved of collection problems and has immediate use of the money. A wire transfer is commonly used and has the advantage of being almost immediate. Payment by check, may result in a collection delay of up to six weeks. Therefore, this method may defeat the original intention of receiving payment before shipment.

Many exporters accept credit cards in payment for exports of consumer and other products, generally of a low dollar value, sold directly to the end user. Domestic and international rules governing credit card transactions sometimes differ, so U.S. merchants should contact their credit card processor for more specific information. International credit card transactions are typically done by telephone or fax. Due to the nature of these methods, exporters should be aware of fraud. Merchants should determine the validity of transactions and obtain the proper authorizations.

For the buyer, however, advance payment tends to create cash flow problems, as well as increase risks. Furthermore, cash in advance is not as common in most of the world as it is in the United States. Buyers are often concerned that the goods may not be sent if payment is made in advance. Exporters that insist on this method of payment as their sole method of doing business may find themselves losing out to competitors who offer more flexible payment terms.

Documentary Letters of Credit and Documentary Drafts

Documentary letters of credit or documentary drafts are often used to protect the interests of both buyer and seller. These two methods require that payment be made based on the presentation of documents conveying the title and that specific steps have been taken. Letters of credit and drafts can be paid immediately or at a later date. Drafts that are paid upon presentation are called sight drafts. Drafts that are to be paid at a later date, often after the buyer receives the goods, are called time drafts or date drafts.

Since payment by these two methods is made on the basis of documents, all terms of payment should be clearly specified in order to avoid confusion and delay. For example, "net 30 days" should be specified as "30 days from acceptance." Likewise, the currency of payment should be specified as "US$30,000." International bankers can offer other suggestions.

Banks charge fees - based mainly on a percentage of the amount of payment - for handling letters of credit and smaller amounts for handling drafts. If fees charged by both the foreign and U.S. banks are to be applied to the buyer's account, this should be explicitly stated in all quotations and in the letter of credit.

The exporter usually expects the buyer to pay the charges for the letter of credit, but some buyers may not agree to this added cost. In such cases, the exporter must either absorb the costs of the letter of credit or risk losing that potential sale. Letters of credit for smaller amounts can be somewhat expensive since fees can be high relative to the sale.

Letters of Credit

A letter of credit adds a bank's promise to pay the exporter to that of the foreign buyer *provided* that the exporter has complied with all the terms and conditions of the letter of credit. The foreign buyer applies for issuance of a letter of credit from the buyer's bank to the exporter's bank and therefore is called the applicant; the exporter is called the beneficiary.

Payment under a documentary letter of credit is based on documents, not on the terms of sale or the physical condition of the goods. The letter of credit specifies the documents that are required to be presented by the exporter, such as an ocean bill of lading (original and several copies), consular invoice, draft, and an insurance policy. The letter of credit also contains an expiration date. Before payment, the bank responsible for making payment, verifies that all documents conform to the letter of credit requirements. If not, the discrepancy must be resolved before payment can be made and before the expiration date.

A letter of credit issued by a foreign bank is sometimes confirmed by a U.S. bank. This confirmation means that the U.S. bank (the confirming bank), adds its promise to pay to that of the foreign bank (the issuing bank). If a letters of credit is not confirmed, it is advised through a U.S. bank and thus called an advised letter of credit. U.S. exporters may wish to confirm letters of credit issued by foreign banks if they are unfamiliar with the foreign banks or concerned about the political or economic risk associated with the country in which the bank is located. An Export Assistance Center or international banker can assist exporters in evaluating the risks to determine what might be appropriate for specific export transactions.

A letter of credit may either be irrevocable and thus, unable to be changed unless both parties agree; or revocable where either party may unilaterally make changes. A revocable letter of credit is inadvisable as it carries many risks for the exporter.

A change made to a letter of credit after it has been issued is called an amendment. Banks also charge fees for this service. It should be specified in the amendment if the exporter or the buyer will pay these charges. Every effort should be made to get the letter of credit right the first time since these changes can be time-consuming and expensive.

To expedite the receipt of funds, wire transfers may be used. Exporters should consult with their international bankers about bank charges for such services.

A Typical Letter of Credit Transaction

Here are the typical steps of an irrevocable letter of credit that has been confirmed by a U.S. bank:

1. After the exporter and buyer agree on the terms of a sale, the buyer arranges for its bank to open a letter of credit that specifies the documents needed for payment. The buyer determines which documents will be required.

2. The buyer's bank issues, or opens, its irrevocable letter of credit and it includes all instructions to the

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Export Shipping and Documentation Workshop

November 9, 2005 - Tulsa
OSU-Tulsa
700 North Greenwood Avenue
Room 150, North Hall
Tulsa, Oklahoma

December 1, 2005 - Oklahoma City
Oklahoma Department of Commerce
900 North Stiles Avenue
Gallery I-I
Oklahoma City, Oklahoma

- Make Checks Payable to Oklahoma District Export Council
- Mail to: 301 N. W. 63rd Street, Suite 330
  Oklahoma City, Oklahoma 73116-7906

Name: ______________________ Firm: ______________________

Address: ____

City: ____________________ State: ______________ Zip: ________

Telephone: ____________ Fax: ____________ e-Mail: ______________

Number of Attendees: ________ @ $35.00 Amount Enclosed: $ ____________

Check which workshop you will be attending: Tulsa ______ Oklahoma City ______ seller relating to the shipment.

3. The buyer's bank sends its irrevocable letter of credit to a U.S. bank and requests confirmation. The exporter may request that a particular U.S. bank be the confirming bank, or the foreign bank may select a U.S. correspondent bank.

4. The U.S. bank prepares a letter of confirmation to forward to the exporter along with the irrevocable letter of credit.

5. The exporter reviews carefully all conditions in the letter of credit. The exporter's freight forwarder is contacted to make sure that the shipping date can be met. If the exporter cannot comply with one or more of the conditions, the customer is alerted at once.

6. The exporter arranges with the freight forwarder to deliver the goods to the appropriate port or airport.

7. When the goods are loaded, the freight forwarder completes the necessary documentation.

8. The exporter (or the freight forwarder) presents the documents, evidencing full compliance with the letter of credit terms, to the U.S. bank.

9. The bank reviews the documents. If they are in order, the documents are sent to the buyer's bank for review and then transmitted to the buyer.

10. The buyer (or the buyer's agent) uses the documents to claim the goods.

11. A draft, which accompanies the letter of credit, is paid by the buyer's bank at the time specified or, if a time draft, may be discounted to the exporter's bank at an earlier date.

Tips on Using a Letter of Credit

When preparing quotations for prospective customers, exporters should keep in mind that banks pay only the amount specified in the letter of credit - even if higher charges for shipping, insurance, or other factors are incurred and documented.

Upon receiving a letter of credit, the exporter should carefully compare the letter's terms with the terms of the exporter's pro forma quotation. This step is extremely important, since the terms must be precisely met or the letter of credit may be invalid and the exporter may not be paid. If meeting the terms of the letter of credit is impossible or if any of the information is incorrect or even misspelled, the exporter should contact the customer immediately and ask for an amendment to the letter of credit.

The exporter must provide documentation showing that the goods were shipped by the date specified in the letter of credit or the exporter may not be paid. Exporters should check with their freight forwarders to make sure that no unusual conditions may arise that would delay shipment.

Documents must be presented by the date specified for the letter of credit to be paid. Exporters should verify with their international bankers that there will be sufficient time to present the letter of credit for payment.

Exporters may request that the letter of credit specify that partial shipments and transshipment will be allowed. Specifying what will be allowed can prevent unforeseen last minute problems.

Documentary Drafts

A draft, sometimes also called a bill of exchange, is analogous to a foreign buyer's check. Like checks used in domestic commerce, drafts carry the risk that they will be dishonored. However, in international commerce, title does not transfer to the buyer until he pays the draft, or at least engages a legal undertaking that the draft will be paid when due.

Sight Drafts

A sight draft is used when the exporter wishes to retain title to the shipment until it reaches its destination and payment is made. Before the shipment can be released to the buyer, the original ocean bill of lading (the document that evidences title) must be properly endorsed by the buyer and surrendered to the carrier. It is important to note that air waybills of lading, on the other hand, do not need to be presented in order for the buyer to claim the goods. Hence, risk increases when a sight draft is being used with an air shipment.

In actual practice, the ocean bill of lading is endorsed by the exporter and sent via the exporter's bank to the buyer's bank. It is accompanied by the sight draft, invoices, and other supporting documents that are specified by either the buyer or the buyer's country (e.g., packing lists, consular invoices, insurance certificates). The foreign bank notifies the buyer when it has received these documents. As soon as the draft is paid, the foreign bank turns over the bill of lading thereby enabling the buyer to obtain the shipment.

There is still some risk when a sight draft is used to control transferring the title of a shipment. The buyer's ability or willingness to pay might change from the time the goods are shipped until the time the drafts are presented for payment; there is no bank promise to pay standing behind the buyer's obligation. Additionally, the policies of the importing country could also change. If the buyer cannot or will not pay for and claim the goods, returning or disposing of the products becomes the problem of the exporter.

Time Drafts and Date Drafts

A time draft is used when the exporter extends credit to the buyer.

The draft states that payment is due by a specific time after the buyer accepts the time draft and receives the goods (e.g., 30 days after acceptance). By signing and writing "accepted" on the draft, the buyer is formally obligated to pay within the stated time. When this is done the time draft is then called a trade acceptance. It can be kept by the exporter until maturity or sold to a bank at a discount for immediate payment.

A date draft differs slightly from a time draft in that it specifies a date on which payment is due, rather than a time period after the draft is accepted. When either a sight draft or time draft is used, a buyer can delay payment by delaying acceptance of the draft. A date draft can prevent this delay in payment though it still must be accepted.

When a bank accepts a draft, it becomes an obligation of the bank and thus, a negotiable investment known as a banker's acceptance. A banker's acceptance can also be sold to a bank at a discount for immediate payment.

Open Account

In a foreign transaction, an open account can be a convenient method of payment if the buyer is well established, has a long and favorable payment record, or has been thoroughly checked for creditworthiness. With an open account, the exporter simply bills the customer, who is expected to pay under agreed terms at a future date. Some of the largest firms abroad make purchases only on open account.

However, there are risks to open account sales. The absence of documents and banking channels might make it difficult to pursue the legal enforcement of claims. The exporter might also have to pursue collection abroad, which can be difficult and costly. Another problem is that receivables may be harder to finance, since drafts or other evidence of indebtedness are unavailable. There are several ways to reduce credit risk, through such means as export credit insurance and factoring.

Exporters contemplating a sale on open account terms should thoroughly examine the political, economic, and commercial risks. They should also consult with their bankers if financing will be needed for the transaction before issuing a pro forma invoice to a buyer.

Foreign Currency

A buyer and a seller who are in different countries rarely use the same currency. Payment is usually made in either the buyer's or the seller's currency or in a third mutually agreed-upon currency.

One of the risks associated with foreign trade is the uncertainty of the future exchange rates. The relative value between the two currencies could change between the time the deal is concluded and the time payment is received. If the exporter is not properly protected, a devaluation or depreciation of the foreign currency could cause the exporter to lose money. For example, if the buyer has agreed to pay 500,000 French francs for a shipment and the franc is valued at 20 cents, the seller would expect to receive US$100,000. If the franc later decreased in value to be worth 19 US cents, payment under the new rate would be only US$95,000, a loss of US$5,000 for the seller. On the other hand, if the foreign currency increases in value the exporter would get a windfall in extra profits. Nonetheless, most exporters are not interested in speculating on foreign exchange fluctuations and prefer to avoid risks.

One of the simplest ways for a U.S. exporter to avoid this type of risk is to quote prices and require payment in U.S. dollars. Then the burden of exchanging currencies and risk are placed on the buyer. Exporters should also be aware if there are problems with currency convertibility. Not all currencies are freely or quickly converted into U.S. dollars. Fortunately, the U.S. dollar is widely accepted as an international trading currency, and American firms can often secure payment in dollars.

If the buyer asks to make payment in a foreign currency, the exporter should consult an international banker before negotiating the sales contract. Banks can offer advice on the foreign exchange risks that exist with a particular currency. Some international banks can also help hedge against such a risk, by agreeing to purchase the foreign currency at a fixed price in dollars, regardless of the currencies value at the time the customer pays. Banks will normally charge a fee or discount the transaction for this service. If this mechanism is used, the bank's fee should be included in the price quotation.

Payment Problems

In international trade, problems involving bad debts are more easily avoided than rectified after they occur. Credit checks and the other methods that have been discussed can limit the risks. Nonetheless, just as in a company's domestic business, exporters occasionally encounter problems with buyers who default on their payment. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the exporter has insurance to cover commercial credit risks, a default by a buyer still requires the time, effort, and cost of the exporter to collect a payment. The exporter must exercise normal business prudence in exporting and exhaust all reasonable means of obtaining payment before an insurance claim is honored. Even then there is often a significant delay before the insurance payment is made.

The simplest (and least costly) solution to a payment problem is to contact and negotiate with the customer. With patience, understanding, and flexibility, an exporter can often resolve conflicts to the satisfaction of both sides.

This point is especially true when a simple misunderstanding or technical problem is to blame and there is no question of bad faith. Even though the exporter may be required to compromise on certain points - perhaps even on the price of the committed goods - the company may save a valuable customer and profit in the long run.

However, if negotiations fail and the sum involved is large enough to warrant the effort, a company should obtain the assistance and advice of its bank, legal counsel, and other qualified experts. Since arbitration is often faster and less costly, this step is preferable to legal action if both parties can agree to take their dispute to an arbitration agency. The International Chamber of Commerce handles the majority of international arbitration and is usually acceptable to foreign companies because it is not affiliated with any single country. For information contact the vice president for arbitration, U.S. Council of the International Chamber of Commerce, at 212-354-4480. For further information about methods of payment, please contact either one of our Oklahoma offices.

November/December 2005 Calendar of Events

Date	***Event***	***Contact***
November 1, 2005	***Minority and Women's Breakfast*** Metro Tech Conference and Banquet Center, Oklahoma City	Aquilla Pugh 405/4274444
November 9, 2005	***Exporting 101: Export Shipping and Documentation Workshop*** OSU-Tulsa, Tulsa	918/581-7650 or 405/6085302
December 1, 2005	***Exporting 101: Export Shipping and Documentation Workshop*** Oklahoma Department of Commerce, Oklahoma City	405/608-5302 or 918/5817650
December 6, 2005	***Minority and Women's Breakfast*** Metro Tech Conference and Banquet Center, Oklahoma City	Aquilla Pugh 405/4274444

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